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CENTRAL INTELLIGENCE AGENCY

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SUMMARY ECONOMIC OUTLOOK IN UNION OF SOUTH AFRICA,  
FRANCE, AND BENELUX IN 19561. Union of South Africa.

Notwithstanding the fact that it is the leading manufacturing country in Africa, the Union of South Africa is primarily engaged in mining and agriculture. The Union is the largest gold-producing country in the world and an important exporter of wool and industrial diamonds.

South Africa's industrialization program has been given impetus by wartime shortages of foreign supplies of manufactured goods, the inflow of foreign capital and a deliberate government policy of diversification of production aiming at greater self-sufficiency. Substantial progress has been made in the metal manufacturing, food processing, textile and chemical industries. Nevertheless, South Africa lacks several essential raw materials and, on balance, is becoming a food-importing rather than a food-exporting country; thus, although the character of its foreign trade is changing, the Union will continue to depend heavily on overseas trade.

The Union has sufficient supplies of coal, iron and ferro-alloy metals. By 1956 it is expected to be self-sufficient in steel capacity, although coking coal, estimated at 30 years' supply at the present rate of consumption, will eventually become a critical factor. Despite adequate coal supplies and water power, electric generating capacity is currently a bottleneck and the estimated 25% increase during the next eight years will still leave capacity slightly short of requirements, estimated at 2,700,000 kw. Rapid progress toward improving and expanding transportation facilities will be necessary to keep pace with the industrialization program.

The Union is now completely dependent on outside sources of oil and, even if plans for the development of synthetic oil capacity fully materialize, domestic production will supply only about a sixth of 1956 requirements, estimated at 2½ million tons. South Africa produces no natural or synthetic rubber, and has no commercially important deposits of bauxite, potash, phosphate rock or sulfur. By 1956, the Union will need to obtain from outside sources about five-sixths of its requirements of tin, about half its timber, perhaps a third of its bread grain and a quarter of its cotton requirements. By 1956 South Africa will be more than self-sufficient in lead, and slight deficiencies of zinc and copper could be supplied from nearby areas. The completion of a raw ammonia plant, now under construction, will allow the Union to be self-sufficient in nitrogen fertilizer.

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By 1956 South Africa may be expected to export about 230 million pounds of wool, 3 million tons of coal and 25 thousand tons of asbestos. The Union would also be a supplier of perhaps a million carats of diamonds annually, the bulk of which will be gemstones. Gold, however, will continue to be the backbone of the economy and the chief source of foreign exchange with which to pay for imports of essential food and raw materials.

## 2. France.

Postwar recovery efforts in France are directed toward the rehabilitation and expansion of capital equipment to overcome the physical damage and capital deterioration of the war and thereby to restore the framework of the prewar economy. For the six "basic industries" - coal, power, steel, cement, agricultural machinery and transport - the Monnet plan sets production goals with a 1950 target for industrial production of 160% of the 1930 level. Large investments are being made, particularly in the coal and transportation fields and in hydro-electric projects. Efforts are being made to modernize and rationalize both agricultural and industrial production methods to raise output despite continuing labor shortages.

By 1956 France may be expected to be virtually self-sufficient in all major food categories, except fats and oils, the domestic production of which will probably supply less than half the country's requirements. France's most extensive indigenous raw materials are iron ore, bauxite, cement and potash, in all of which the country is on an export basis. On balance, however, France is a heavy net importer of industrial raw materials, coal and oil being major import items.

French coal production should increase substantially by 1956, but, in view of the prospective increase in coal requirements, especially for the capital goods industries, imports of at least 30 million tons, or perhaps a third of total requirements at that time, will be required.

The dependence of the French iron and steel industry on raw materials from the Ruhr is such that France is expected to receive 30% of the total Ruhr exports of coal and coke. Electric generating capacity is being developed rapidly, production already having exceeded the prewar rate by 40%. Oil has been increasingly used as a substitute for coal for some purposes, despite the fact that almost all oil must be imported. It is not believed, however, that this trend can continue.

France is particularly deficient in non-ferrous metals, having practically no copper, nickel or tin, relatively little zinc, and only enough lead production to satisfy a third of prospective requirements. All of the country's cotton must be imported and a fourth of its timber.

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Whereas France's imports normally consist predominantly of industrial raw materials, exports are chiefly manufactured goods - textiles, vehicles, chemicals, and iron and steel. Industrial production has already exceeded the prewar rate by 17%. The acute postwar limitations of food, transportation, and labor are being overcome; continuation of the upward trend of production will hinge on the availability of coal, particularly from the Ruhr.

### 3. Belgium.

Belgium, the most densely populated country of Europe, is largely an industrial processing country. The principal products which Belgium produces in excess of its domestic requirements are iron and steel, textiles, cut diamonds, glass, cement, certain nonferrous metals (particularly zinc), railroad cars, and some types of heavy machinery. The metallic ores, textile fibers (other than flax), and similar raw materials required in the manufacture of the above products, however, are largely imported. The only industrial raw material available in large quantities in Belgium is coal, but even this material must be supplemented to some extent by imports. Belgium also is dependent upon outside sources for considerably more than one-half of its bread grains, coarse grains, and fats and oils, but is nearly self-sufficient in meat and sugar.

In addition to the export of the products mentioned above, German transit trade through Antwerp was an important source of foreign exchange for Belgium before the War. At present this trade is only a fractional part of its prewar level. It is expected that it will be much larger in 1956 although even then it may be less than prewar. The physical damage and the economic dislocation in Belgium resulting from the War were not as great as in most of the other Allied countries. Also the dollar and sterling exchange acquired by Belgium particularly in 1945 was helpful in furthering Belgium's recovery. Similarly, exports from the Belgian Congo during the War yielded exchange which placed Belgium in a relatively strong position.

It does not appear likely that there will be any great shift in the character of Belgian industry and trade during the next few years. The most likely development is an intensification of the industrial characteristics of the country that existed before the War. Iron and steel production in 1956 is expected to be nearly twice that prevailing in 1948 (that is, possibly 6 million tons of pig iron and 5 to 5½ million tons of finished steel). The mid 1948 annual rate of production is approximately equal to the annual average rate during the decade before the War.

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Increases in production of cotton textiles and in smelting of non-ferrous metals appear unlikely. Coal production may increase slightly during the next few years but is not likely to keep pace with consumption, and increased coal imports will be essential to maintain the projected rate of expansion in the iron and steel and other industries. Belgium in 1956 probably will produce a somewhat larger part of its requirements for mining and agricultural machinery than it did before the War. Conspicuous changes in the character of its industry during the next few years thus appear unlikely, and the most important development between 1948 and 1956 probably will be the considerable increase in production of iron and steel products mentioned above.

There are important respects in which trade between Belgium, Luxembourg, and The Netherlands is complementary. The Netherlands provides a ready market for the iron and steel products which Belgium and Luxembourg produce for export. Conversely, Belgium imports dairy products from the The Netherlands and some raw materials from The Netherlands Indies. Also the combined strength of the Benelux economic union when fully implemented will be a strong economic bargaining unit in international economic relations. At present the two countries employ a common tariff with respect to third countries, but trade restrictions between Belgium, The Netherlands, and Luxembourg have not yet been lifted, internal excise taxes differ, and the monetary systems of the countries are quite independent. By 1956 it is likely that considerable progress will have been made toward a complete economic union of the three countries. Their leading statesmen accept this goal as highly desirable and are endeavoring to achieve complete economic union as rapidly as practicable in view of the differences in the impact of war and in the degree of recovery in the three countries.

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#### 4. The Netherlands.

The effects of the war (physical destruction by military action, deprivations during the German occupation, and the changes in the relations with overseas territories) are relatively greater in the Netherlands than in any other Allied country in Western Europe. Economic recovery in the Netherlands consequently has been more difficult and is not as far advanced as in other Western countries. Nevertheless, manufacturing production in the Netherlands by the middle of 1948 had returned approximately to the 1937-38 level, and electric power production was considerably larger than prewar. Coal mining, however, was still 20 percent under prewar levels.

The long-range economic outlook in the Netherlands is not particularly promising. The parts of the world of particular importance to the Netherlands economy before the war were the United Kingdom, Germany, Belgium, Luxembourg, and the Netherlands Indies: the United Kingdom as a market for the export of food products; Germany as a source of iron and steel and other metals products and as a source of foreign exchange earnings from transit trade; Belgium and Luxembourg as a source of iron and steel and other heavy industrial products and as a market for Netherlands dairy products; and the Netherlands Indies as an important source of investment income and foreign exchange.

For many years the value of merchandise imports into the Netherlands was 40 to 50 percent more than merchandise exports. This commodity trade deficit was offset by income from overseas investments, from shipping and from German transit trade as indicated above. The principal commodities in which the Netherlands showed a net export were dairy products, meat, eggs, textile fabrics, bulbs and seeds, and vegetables. In view of the efforts in the United Kingdom to obtain increased self-sufficiency in meats, vegetables, and other foods, that country will not provide as good a market for Netherlands products in the future as it did in the past. By 1956 Netherlands shipping may yield larger returns than in prewar years. Income from investments and returns from the German transit trade, however, are not likely to equal prewar levels at any time in the foreseeable future.

Moderate improvement in total industrial production over present levels should be attained by 1956. The tendency appears to be toward production for increased self-sufficiency (such as the expansion of iron and steel industry which is a relatively minor one in the Netherlands and the exploitation of crude petroleum) and toward increased production of finished manufactures (such as electrical products, pharmaceuticals and plastics) rather than in expansion of the production of food products which were the principal export commodities before the war. It is not likely, however, that the expected increases in industrial production by 1956 will more than offset the declines in invisible income earned by the Netherlands before the war.

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A recent development of considerable importance is the increasing participation by US management and capital jointly with Dutch interests in the development and expansion of industrial activity in the Netherlands.

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5. Relation of Ruhr Production to Western Europe.

Industrial expansion in France and the Benelux countries depends heavily on the coal industry of the Ruhr. The importance of Ruhr coal to the French iron and steel industry is manifest in the fact that in 1948, even with French coal production at a record high, France will import about 5 million metric tons of Ruhr coking coal. This amount is sufficient to produce about 3 million tons of pig iron, or about 45 percent of estimated French production in 1948. The industries of Belgium and Luxembourg are even more heavily dependent upon imports of Ruhr coal.

In the future, Ruhr coal is likely to play an equally important part in the industrial activity of Western Europe. In France, although current steel output is well above prewar levels, a considerable expansion of that country's industry is planned. To meet the requirements of its steel production program, an increase in French coal production from a current rate of about 50 million metric tons to 62 million by 1952 is projected. Even if this ambitious plan is fulfilled, however, only a small part of the additional output will be coal suitable for coking. An increased rate of import of foreign coal is therefore necessary. Aside from the Ruhr, possible sources of the required coal are the United States, the United Kingdom, and Poland. Of the three, only Poland offers the probability of providing France (and other western countries) with more than nominal supplies during the next eight years. Coking coal is in great demand in the United States and, barring a major depression, is likely to continue so. In the United Kingdom the steel industry is consuming, and is likely to continue to consume virtually the entire domestic supply. Polish underground reserves of coking coal allow for some increase in production, but a major increase would require larger imports of mining machinery than are likely to be available to Poland for some years to come. For the next few years, transport and payments difficulties are likely to keep imports of Polish coal proportionately small. France and the Benelux countries must therefore look to the Ruhr to satisfy their increasing requirements of coal.

Assuming fairly stable peacetime conditions, the possibilities of stepping up Ruhr coal shipments to the West appear to be good. At present, about 20 percent of the coal produced in the Ruhr is exported, and about half goes to France and Benelux. The volume of future deliveries will be largely controlled by two factors: the amount of coal produced in the Ruhr and the amount of steel produced in Germany. Coal production is expected to rise from the current level of about 95 million metric tons per year, equivalent to 70 percent of the prewar output, to a level of at least 150 million tons by 1956. The Western Allies have established a goal for Germany's steel production of 10.7 million metric tons, which is somewhat more than half of prewar output. In all probability, this target can be attained by 1952, but it may be presumed that it will not be exceeded in later years. Throughout the next eight years, therefore, coal

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output in the Ruhr will be increasing at a more rapid rate than steel. Thus, the basis for expansion in the iron and steel industries in France and Benelux can readily be provided from the Ruhr.

The dependence of these countries on Ruhr steel is much less important than their dependence on Ruhr coal, and, owing to projected expansion of their own steel and steel products industries, the temptation to increase the dependence by 1956 will not be great. Before the war Western Europe customarily imported rolled steel products, as well as mining and other heavy-duty machinery produced in the Ruhr. In addition, there was indirect dependence on Ruhr steel in imports of automotive, electrical, and engineering commodities manufactured in various parts of Germany out of Ruhr steel. Currently, and for the next few years, much if not most of Ruhr steel products will of necessity be consumed at home in reconstructing Germany. After 1950, however, Ruhr steel products will probably be imported by western countries in increasing quantities. Their own increased output, however, will enable them to do so on a more selective basis.

Ruhr coal and steel production is obviously providing a powerful stimulus to industrial growth in France and Benelux; the loss of Ruhr production during the next few years, therefore, would be expected to cripple their industries in comparable proportions.

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